SB 931

Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 931 (Senator Middleton)
Finance Economic Matters

Maryland Energy Administration - Energy Efficiency and Economic Development Loan Program

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This bill generally codifies the Energy Efficiency and Economic Development Loan Program and the Energy Efficiency and Economic Development Loan Fund in the Maryland Energy Administration (MEA) to provide low-interest loans to selected Maryland businesses that promote energy conservation, energy efficiency, energy-related economic development, and stability in business, commercial, and industrial sectors.

Fiscal Summary

State Effect: PAYGO special fund expenditures would increase by $500,000 in FY 2006 to recapitalize this loan program, which was originally capitalized in 1995 but has not been funded since. Future year estimates assume a constant level of funding. Special fund revenues from loan repayments and investment income would increase; in the long run, revenues would presumably offset expenditures.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Revenue	-	-	-	-	-
SF Expenditure	500,000	500,000	500,000	500,000	500,000
Net Effect	($500,000)	($500,000)	($500,000)	($500,000)	($500,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: The criminal penalty provisions of this bill are not expected to significantly affect local finances or operations.

Small Business Effect: Meaningful.

Analysis

Bill Summary: MEA must manage, supervise, and administer the program. MEA is directed to adopt regulations, attach necessary terms to loans, and develop procedures for monitoring projects. The bill establishes application procedures.

Loans from the fund may be used for the costs of implementing projects and the costs of construction, rehabilitation, or modification, including the purchase and installation of any necessary machinery, equipment, or furnishings. The bill requires borrowers to make a contribution to a project that is acceptable to MEA. The bill establishes provisions regarding loan repayments and assurances, and authorizes MEA to enter into contracts with third parties to make, service, or settle loans made under the bill.

The loan fund consists of money appropriated in the State budget to the program, including money appropriated to the Energy Overcharge Restitution Fund, money received from any public or private source, interest and investment earnings on the fund, and loan repayments and prepayments. The fund may only be used to pay the expenses of the program and to provide loans to eligible borrowers and projects.

The bill establishes prohibitions relating to knowingly making false statements or reports. A person who violates those prohibitions is guilty of a misdemeanor and on conviction is subject to a fine of up to $50,000 and/or imprisonment of up to one year.

Current Law: MEA is an independent unit of State government created, in part, to promote the conservation and efficient use of energy and to evaluate and coordinate energy-related policies and activities among State and local agencies. MEA currently administers several financial assistance programs, including: (1) the Solar Energy Grant Program, which provides grants to individuals, local governments, and businesses for a portion of the costs of acquiring and installing photovoltaic property and solar water heating property; (2) the Community Energy Loan Program, which provides loans to nonprofit organizations or local jurisdictions for projects in buildings in order to promote energy conservation and improve energy efficiency; (3) the State Agency Loan Program, which provides loans to State agencies for energy conservation improvements; and (4) the Energy Efficiency and Economic Development Loan Program (EEDLP), which provides loans to commercial and industrial entities to install energy efficiency improvements.

Background: EEDLP is a nonlapsing, revolving loan fund that provides low-interest loans for energy conservation project design and installation. MEA makes these loans to commercial and industrial businesses. The program was originally capitalized in fiscal 1995 with $1.7 million from the Energy Overcharge Restitution Fund. Interest rates are individually negotiated with borrowers but are guaranteed to be below market rates and are anticipated to be approximately 4%. Loans under EEDLP may be used to finance a variety of energy conservation project costs. Projects that qualify for financing must save energy or energy costs, be in a building that is either owned or under a long-term lease, and have a simple payback period between one and seven years. EEDLP allows borrowers to use the cost savings generated by the energy efficiency improvements as the primary source of revenue for repaying the loans. Repayments may be deferred for a period to be renegotiated for each loan. Following the deferral, repayments are made in annual or semiannual installments for the term of the loan.

State Fiscal Effect: Based on information provided by MEA, a minimum of $500,000 annually would be needed to operate a viable loan program. Funds have not been appropriated for this program since it was initially capitalized in 1995. It is assumed that $500,000 annually in PAYGO special funds would be provided for the program from the Energy Overcharge Restitution Fund.

Special fund revenues from loan repayments and investment income would increase; in the long run, revenues would presumably offset expenditures. *For illustrative purposes*, based on an average payback period of six years (including an initial 12-month grace period), and an interest rate of 4%, repayments collected on the initial $500,000 disbursement could total approximately $100,000 annually. Under those conditions, special fund revenues would offset expenditures in the sixth year of the program.

MEA could implement the loan program with existing staff.

The criminal penalty provisions of this bill are not expected to significantly affect State finances or operations.

Small Business Effect: According to MEA, loans under the program would be made available primarily to small businesses, as those businesses typically do not have sufficient capital to make energy-efficiency improvements. In the long run, those businesses would presumably realize energy savings.

Additional Information

Prior Introductions: None.

Cross File: HB 1430 (Delegate Krebs) – Economic Matters.

Information Source(s): Maryland Energy Administration, Department of Legislative Services

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Analysis by: Lesley G. Cook

Direct Inquiries to:
(410) 946-5510
(301) 970-5510